

MEMO# 2149

August 28, 1990

SEC IMPOSES SANCTIONS ON FUND OFFICIAL IN CONNECTION WITH FAILURE TO COMPLY WITH STATE BLUE SKY LAWS

- 1 - August 28, 1990 TO: SEC RULES MEMBERS NO. 61-90 STATE SECURITIES MEMBERS NO. 27-90 RE: SEC IMPOSES SANCTIONS ON FUND OFFICIAL IN CONNECTION WITH FAILURE TO COMPLY WITH STATE BLUE SKY LAWS

The SEC has issued an Order Instituting Proceedings, Making Findings and Imposing Remedial Sanctions on G. Richmond McFarland, in connection with his failure to register the shares of a registered investment company ("Fund"), or file for an exemption from registration, under state Blue Sky laws. A copy of the order is attached. The SEC found that while serving as a director/trustee, president, treasurer and supervisor of the daily operations of the Fund and as president, chief operating officer and supervisor of the daily operations of the Fund's investment adviser, McFarland knew or should have known that the Fund's semi-annual reports and other filings made with the Commission did not reflect liabilities for state registration fees. The SEC further concluded that McFarland willfully aided and abetted violations of Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and Section 34(b) of the Investment Company Act of 1940 and Rule 8b-20 thereunder by causing misrepresentations and/or omissions of material facts to be made concerning the application of state Blue Sky laws to the Fund, the potential adverse consequences to Fund shareholders of failure to register with the states and the Fund's statement of expenses, net investment income and other liabilities. Based on its findings, the SEC suspended McFarland from association with any broker, dealer, municipal securities dealer or investment adviser for eight months and prohibited him from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor or principal underwriter for eight months. The SEC further ordered that for a one-year period beginning at the expiration of his suspension, - 2 - McFarland comply with an undertaking to retain outside counsel for any registered investment company for which McFarland or an affiliate serves in any supervisory, advisory or managerial capacity to review the company's Blue Sky compliance practices and procedures. Finally, the SEC ordered McFarland to agree to file affidavits of compliance with the above suspension and undertaking with the Philadelphia Regional Office. Frances M. Stadler Assistant General Counsel Attachment

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